LIMPOPO

PROVINCIAL GOVERNMENT

REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

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2021/22
Q1

Foreword

Covid-19 can be described as a disruption to the world order - a disruption that has tested the formidability of democracies, economies, financial markets and development programmes.

The Quarterly Economic Bulletin (QEB) is presented at a time where countries are racing to immunise its population against the subtle virus, that has the potency to mutate if not terminated well in time, and complicate strategies developed to disempower it. America, Europe and Asia have been in the forefront of developing Covid-19 vaccines and by comparative advantage managed to accelerate inoculation of its population. This has created vaccine inequality in the world where developing countries and some of the emerging markets lag in vaccination.

The economic recovery and restoration of human capital mobility is dependent of the world's immunity and not one country's immunity. Hence it is necessary to have global cooperation, not only on vaccine development and distribution, but also on supplementary structural arrangements that will ensure global fiscal, economic recovery and development sustainably. Developing countries were impacted severely by the pandemic with compromised fiscal and economic positions. This will require developed economies to accommodate developing countries through finance and economic restructuring to ensure inclusive global economic recovery.

The Limpopo province has developed the provincial economic recovery and reconstruction plan, aligned to the national recovery plan, aimed at stimulating equitable and inclusive growth. The Provincial Treasury will remain committed to providing the necessary support to provincial departments and municipalities in achieving this goal.

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DDG: Sustainable Resource Management

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1 Introduction

It is one year since COVID-19 was declared a global pandemic. The pandemic has caused a severe loss of life, and is tipping millions into extreme poverty, and is expected to inflict lasting scars that push activity and income well below their pre-pandemic trend for a prolonged period. There has been substantial progress in the development of effective vaccines, and inoculation has begun in some countries like South Africa, where the initial focus is on health care workers and people over the age of 60. However, global cooperation will be essential for supporting vulnerable populations and achieving a sustainable and inclusive global recovery.

2 Global Economic Overview

World economic growth plummeted in 2020 by -3.3 percent which was primarily caused by the COVID-19 pandemic. Global economic output is anticipated to rebound by 6.0 percent in 2021, as more and more economies start opening up, but will taper to 4.4 percent in 2022, weighed down by the pandemic's lasting damage to potential growth. Generally, trade in the goods sector have improved, while the services sector remains subdued, with international tourism still depressed. The fall in global investment is characterised by capital spending withdrawals by private firms and public corporations, which has been pronounced.

Table 1: GDP, constant prices % change

Country Group Name	2010	2015	2020	2021	2022	2023
World	5,4	3,5	-3,3	6,0	4,4	3,5
Advanced economies	3,1	2,4	-4,7	5,1	3,6	1,8
United States	2,6	3,1	-3,5	6,4	3,5	1,4
Euro area	2,1	2,0	-6,6	4,4	3,8	1,9
United Kingdom	2,1	2,4	-9,9	5,3	5,1	2,0
Emerging market and developing economies	7,4	4,3	-2,2	6,7	5,0	4,7
China	10,8	7,0	2,3	8,4	5,6	5,4
Sub-Saharan Africa	10,8	7,0	2,3	8,4	5,6	5,4
South Africa	3,0	1,2	-7,0	3,1	2,0	1,4

Source: International Monetary Fund, World Economic Outlook Database, April 2021

2.1 Advanced Economies

Advanced economies are projected to recover, with growth reaching 5.1 percent in 2021 and 3.6 percent in 2022, which is supported by widespread vaccination and sustained monetary policy accommodation, which is expected to more than offset the partial unwinding of fiscal support. United Kingdom is only expected to growth at 5.3 percent, growth is subdued by intermittent outbreaks of Covid-19 due to inconsistent and lackadaisical strategies of fighting the virus.

2.2 Emerging Economies

Emerging markets and developing economies' growth is estimated to firm to 6.7 percent in 2021 and to moderate to 5.0 percent in 2022. The improvement largely reflects China's expected rebound. China is expected to grow by 8.4 percent in 2021, boosted by early containment measures and inoculation of its population allowing local economy, particularly the secondary sector to open up for global supply.

2.3 Sub-Saharan Africa

Sub-Saharan Africa total output remained resilient in 2020 growing at an average of 2.3 percent and expected to gain more momentum in 2021 with an average growth rate of 8.4 percent. This growth is mainly supported by global demand in primary sector commodities. However, COVID-19 is likely to weigh on growth in Sub-Saharan Africa for an extended period, as the rollout of vaccines in the region is expected to lag

2.4 Global GDP per capita

Comparing all the regions, the fragile and conflict-affected developing economies experienced the highest decline in GDP per capita in the past year, where the incidence of extreme poverty is also the highest. The World Bank mentioned that due to the deterioration in living standards, extreme poverty among developing economies is projected to increase by tens of millions of people cumulatively in 2020 and 2021, while the share of the population living in extreme poverty could rise by as much as 4 percentage points, reversing five years of progress in poverty reduction efforts.

Figure 1: Advanced economies and Emerging market and developing economies

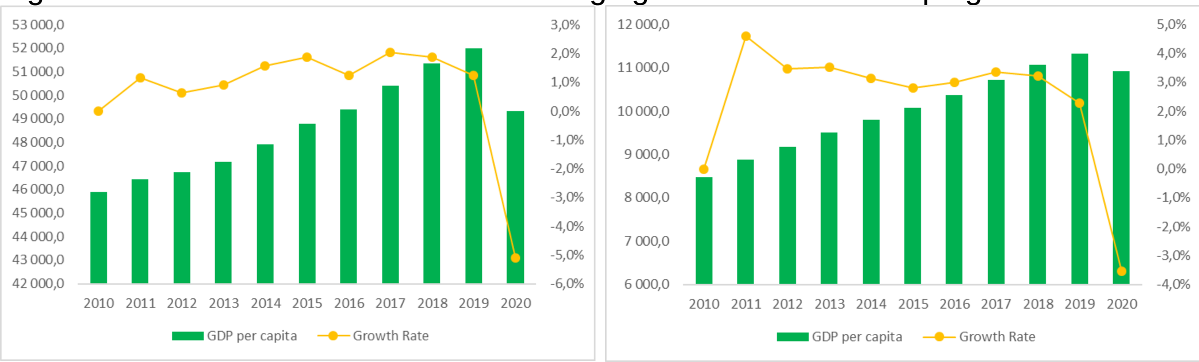
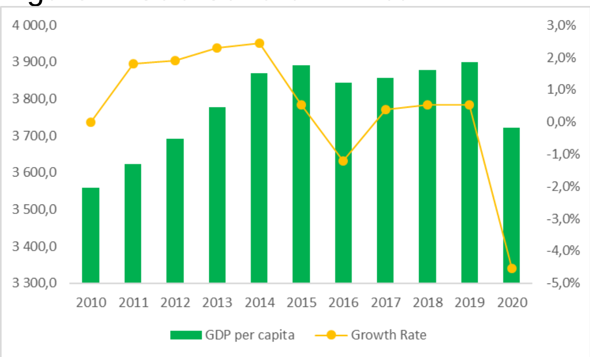


Figure 2: Sub-Saharan Africa



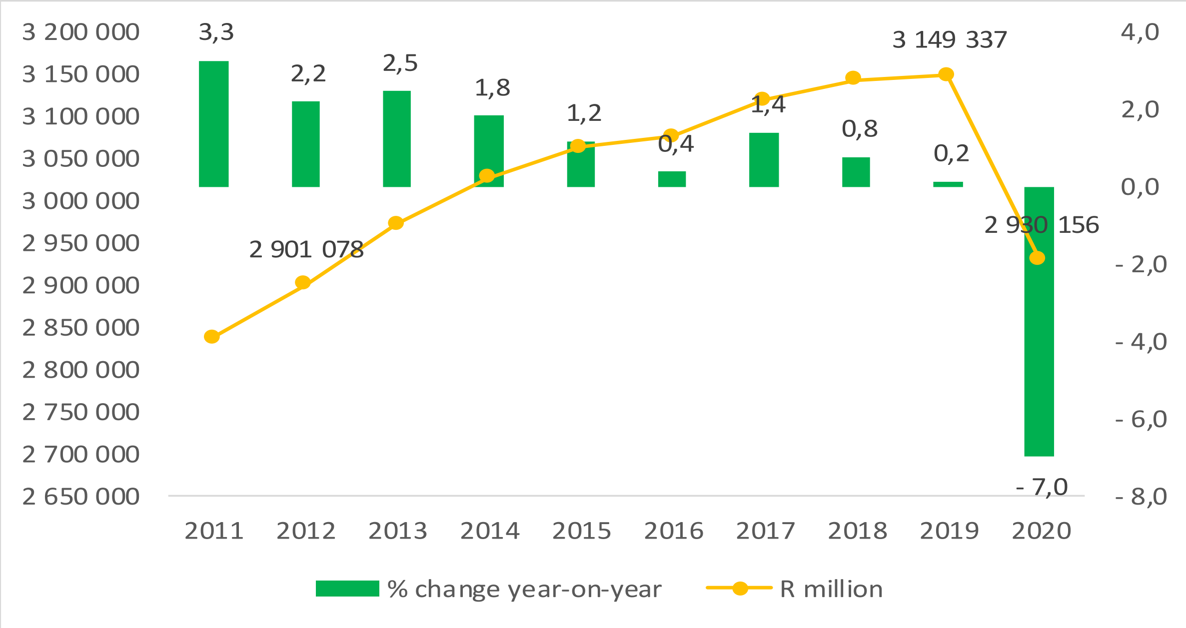
Source: International Monetary Fund, World Economic Outlook Database, April 2021

Per capita income levels in advanced economies dropped by 5.1 percent to $49 328 in 2020 from $51 983 in 2019. (regressing the region's per capita levels to the one last recorded in 2016). Emerging market and developing economies has declined by -3.5 percent to $10 922 in 2020 from $11 323 in 2019 (regressing the region's per capita levels to the one last recorded in 2017). Sub-Saharan Africa's GDP per capita declined by -4.5 percent to $3 721 in 2020 from $3 898 in 2019 (regressing the region's per capita levels to the one last recorded in 2012). African economies realised the largest regression of all the regions in the world. The risks of subdued recovery are insurmountable varying from political stability, economic policy reforms, sustainable fiscal and monetary policies, deficient economic infrastructure, destructive climate conditions, disease outbreaks and the list goes on

3 South African Economic Overview

The recovery in domestic economic activity, following the sharp contraction in the second quarter of 2020, continued in the fourth quarter as the national coronavirus disease 2019 (COVID-19) lockdown restrictions were eased further. However, growth in the real gross domestic product (GDP) moderated markedly to an annualised rate of 6.3 percent in the fourth quarter of 2020, from a revised 67.3 percent in the third quarter. For the year as a whole, real GDP contracted by a substantial 7.0 percent after a marginal increase of only 0.2 percent in 2019.

Figure 3: SA GDP Constant 2010 prices % change year-on-year



Source: StatsSA Gross Domestic Product Q4

In line with the sluggish growth in real GDP, growth in real Gross Domestic Expenditure (GDE) has been on a declining trajectory since 2018 moderating to 0.6 in 2019 from 1.9 percent in 2017. The impact of Covid-19 further suppressed it to -9.1 percent. Real final consumption expenditure by household was notably affected, tapering to -5,4 percent in 2020 from 1.0 percent in 2019 reflective of job losses and reduced average household income. General government maintained positive growth of 0.5 percent. However, Gross Fixed Capital Formation took a nose dive from -0.9 percent in 2019 to 17.5 percent in 2020 reflective of the social distancing government regulations and significantly hurt business confidence.

able 2: Real gross domestic expenditure % change year-on-year

	2015	2016	2017	2018	2019	2020
Final consumption expenditure by households	1,9	0,6	2,1	1,8	1,0	-5,4
Final consumption expenditure by general government	-0,8	2,2	0,2	1,9	1,5	0,5
Gross fixed capital formation	2,5	-3,5	1,0	-1,4	-0,9	-17,5
Gross domestic expenditure	**2,0**	**-0,9**	**1,9**	**0,9**	**0,6**	**-9,0**
Exports of goods and services	2,9	0,4	-0,7	2,6	-2,5	-10,3
Imports of goods and services	5,4	-3,9	1,0	3,3	-0,5	-16,6
Expenditure on gross domestic product	**1,2**	**0,4**	**1,4**	**0,7**	**0,1**	**-7,1**

Source: StatsSA Gross Domestic Product Q4

3.1 Retail Sales

Retail volume growth worsened on aggregate in the first quarter, largely dragged down by significant declines in the durable goods category. Retail trade sales decreased by 1,3 percent in the first quarter of 2021 compared with the first quarter of 2020. The main negative contributor to this decrease was all ‘other’ retailers (-18,7 percent and contributing -2,4 percentage points). However, year on year growth of Household furniture, appliances and equipment and Hardware, paint and glass was conspicuously high, attributed to the working from home arrangement, where individuals not only renovated their homes but bought the supplementary equipment to ensure a conducive environment for business continuity

Table 3: Retail trade sales at constant 2015 prices for the latest three months by type of retailer

Type of retailer	Jan – Mar 2020 (R million)	Weight	Jan – Mar 2021 (R million)	% change between Jan – Mar 2020 and Jan – Mar 2021	Contribution (% points) to the total % change
General dealers	101 771	44,9	97 542	-4,2	-1,9
Food, beverages and tobacco in specialised stores	17 286	7,6	15 893	-8,1	-0,6
Pharmaceuticals and medical goods, cosmetics and toiletries	16 776	7,4	16 554	-1,3	-0,1
Textiles, clothing, footwear and leather goods	34 571	15,3	39 035	12,9	2,0
Household furniture, appliances and equipment	9 918	4,4	11 735	18,3	0,8
Hardware, paint and glass	17 089	7,5	19 115	11,9	0,9
All other retailers	29 112	12,9	23 654	-18,7	-2,4
Total	**226 523**	**100**	**223 528**	**-1,3**	**-1,3**

Source: StatsSA Retail Sales Q1

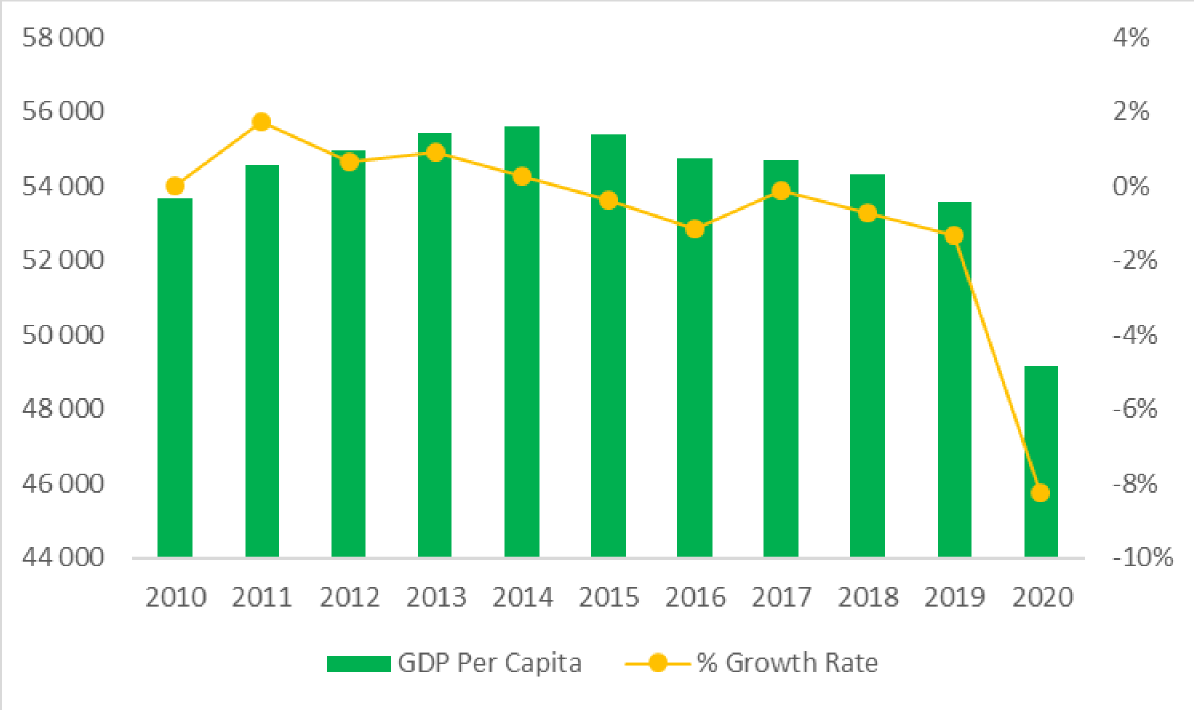
Looking ahead into the second quarter, it is discouraging that the overall retail sector (except for the non-durable retailers) is pessimistic about business conditions and sales volumes. Significant risks lie ahead with the prospect of a third wave in SA looming amid a very slow vaccine rollout.

Furthermore, given the hikes in fuel and electricity prices, rising food inflation, below-inflation adjustments to social grants and the expiration of the Social Relief of Distress Grant (SRD) and Temporary Employer/Employee Relief Scheme (TERS) programme, there is a real risk that the household finances of low-income households could come under significant pressure. This could hurt non-durable goods sales volumes in particular. The weak labour market (gradual rise in unemployment) as well as the power supply crisis at Eskom also do not support the desired swift recovery of the trade sector in general.

3.2 South African GDP per capita

The South African GDP per capita has been on the decline since 2014 where it was R55 584. In 2019 it moderated to R53 566 before plummeting to R49 145 in 2020, attributed to Covid-19 congruent to -7.6 percent in the total GDP output of the country. Since 2011, the GDP per capita has been growing at a decreasing rate from 1.7 percent in 2011 to –1.3 percent in 2019 before tapering to a significant -8.3 percent in 2020. In per capita terms, the economy stagnated and lately tapered conspicuously, providing no additional income that could help reduce poverty. According to the National Treasury, serious risks to the economic recovery include further deterioration in the financial condition of state-owned companies, with attendant demands on the fiscus; unreliable power supply; and policy inertia and slow implementation of structural reforms which will weigh down on attempts to increase the average household incomes through job creation.

Figure 4: SA GDP per capita



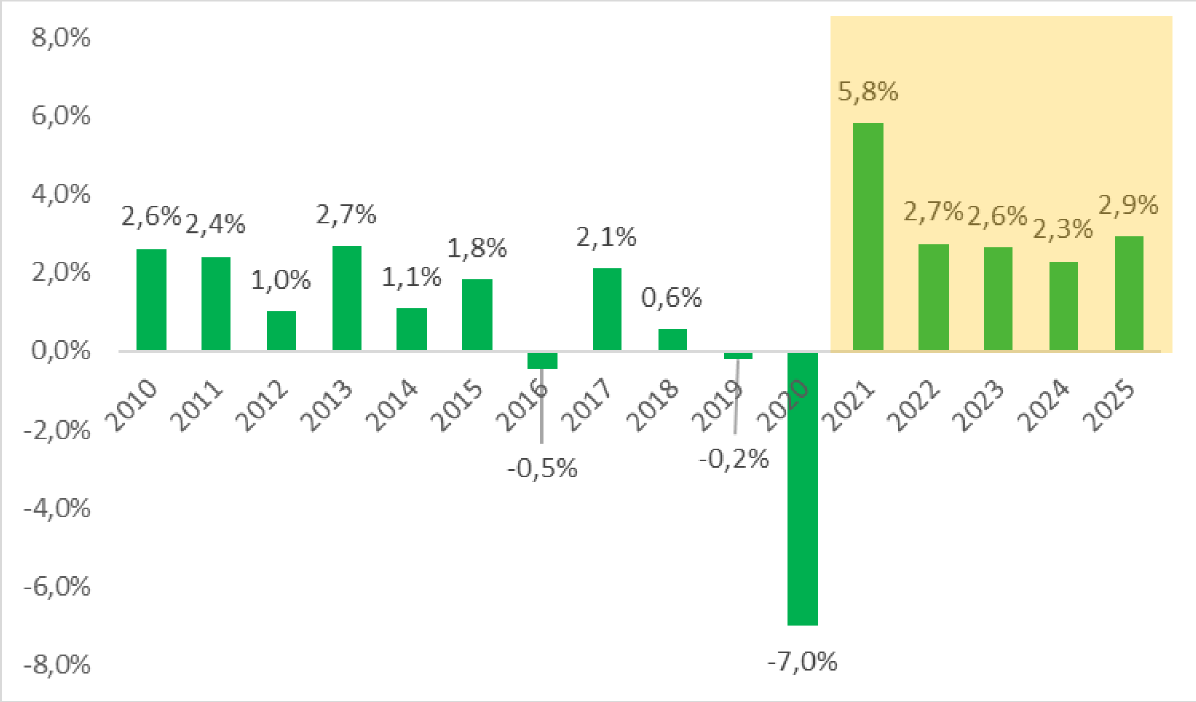
Source: StatsSA Gross Domestic Product Q4 and Mid-Year Population Estimate 2020

4 Limpopo Economic Overview

The provincial economy has historically lacked structural transformation as for the longest of time has mainly been an extractive economy and supported by government services. Diversification into the expansion of the industrial sector has not attained significant strides with the Special Economic Zones (SEZ) stalled by preliminary administrative hurdles. The intensive implementation of the SEZs in the province can become the basis of the provincial recovery from the devastating adverse effects of Covid-19 by increasing the average productive output in the province and creating the much needed jobs to raise the average level of household income and curbing poverty.

The provincial output has been on the decline since 2018 to 0.6 percent, from 2.1 percent in 2017. It deteriorated to -0.2 percent in 2019 before plunging to -7.0 percent in 2020. As mining output, retail sales improve, the provincial output is expected to recover to 5.8 percent in 2021.

Figure 5: Limpopo GDP Constant 2010 prices % change year-on-year

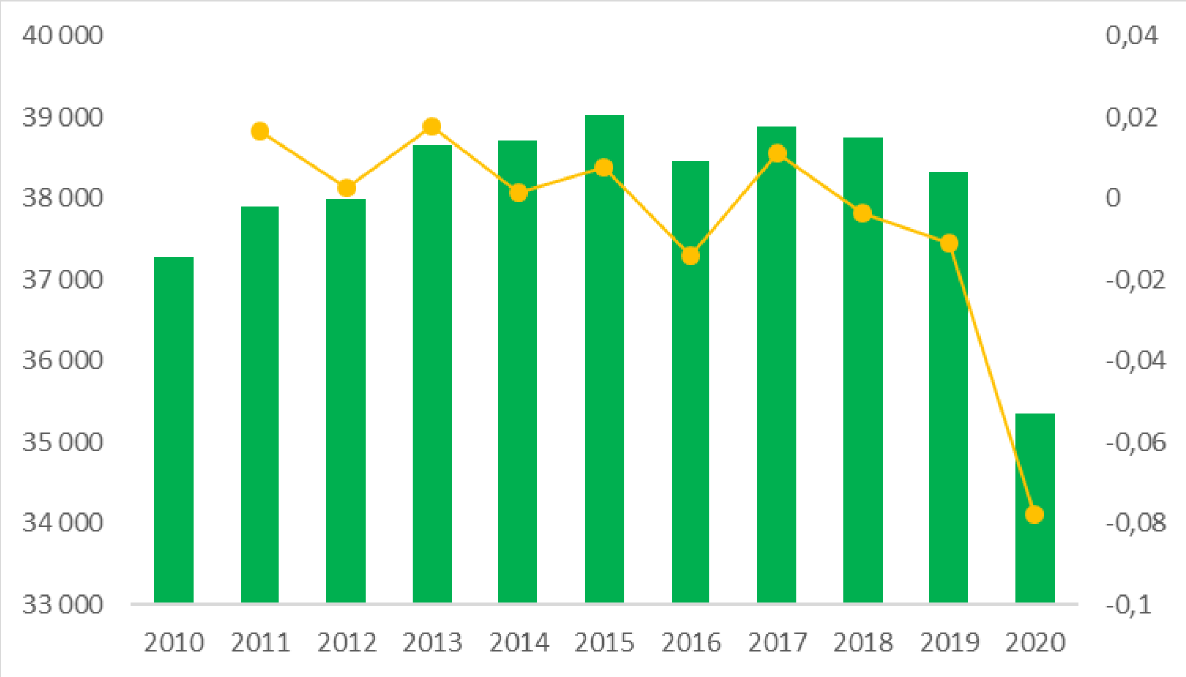


Source: IHS Regional Explorer 2021

4.1 Limpopo GDP per capita

The Limpopo GDP per capita has been on the decline since 2015 where it was R39 015, R16 368 less than the national average of R55 383. In 2019 it toned-down to R38 327 before significantly deteriorating to R35 347 in 2020, owing to Covid-19 that has reduced the total output of the province where economic growth was recorded at -7.0 percent indicative of reduced provincial productivity in all the sectors that led to job and income losses. The Limpopo GDP per capita will continue to decline in the medium term as the population continues to grow while GDP growth remains subdued, implying that the provincial population will on average become relatively poorer over the next few years

Figure 6: Limpopo GDP per capita



Source: IHS Regional Explorer 2021

5 Cost of living and impending risks to development

The cost of living for many South Africans has soared in the recent years, aggravated by the adverse effects of Covid-19. There is a generalised tool to measure the cost of living in the country and this section will further exhibit indicators that drive the cost of living called the Household Affordability index. The Household Affordability Index is a new basket and has been designed together with women living on low incomes in South Africa. It cannot however be considered the basket for every family living on a low income in each area and for all areas covered. It is however considered a reasonable proxy for a food basket which women identified as including the most important typical foods which most households try and buy each month, given affordability constraints.

According to the Foundation for Human Rights Survey, the Human Affordability Index deteriorated since the advent of Covid-19 by increased to 7.8 percent from September 2020 as compared to April 2021. The drastic rise was driven by Maize meal (16 percent), White sugar (8.0 percent), Sugar beans (42.0 percent), Samp (12.0 percent), Cooking oil (20.0 percent), and Soup (7.0 percent). The index realises an increase in an environment where thousands of South Africans have lost jobs and the average household income have dwindled.

Table 4: APRIL 2021 Household Food Index: All areas, by foods prioritised & bought first (Rands)

Foods tracked	Quantity tracked	Index 2020/21			change in Rands		change in %	
		Sep_2020	Mar_2021	Apr_2021	Mar 2021 vs. Apr 2021	Sep 2020 vs. Apr 2021	Mar 2021 vs. Apr 2021	Sep 2020 vs. Apr 2021
Maize meal	30kg	212,68	240,93	247,46	6,54	34,79	3%	16%
Rice	10kg	135,99	138,51	141,10	2,59	5,11	2%	4%
Cake Flour	10kg	92,45	94,56	95,83	1,27	3,38	1%	4%
White Suger	10kg	151,80	158,19	163,21	5,01	11,41	3%	8%
Sugar beans	5kg	116,77	158,76	165,45	6,69	48,69	4%	42%
Samp	5kg	42,52	45,58	47,43	1,84	4,91	4%	12%
Cooking oil	5L	104,43	109,82	124,89	15,06	20,45	14%	20%
Salt	1kg	12,27	12,35	12,65	0,30	0,38	2%	3%
Potatoes	10kg	67,20	59,39	63,07	3,68	-4,13	6%	-6%
Onions	10kg	70,07	61,52	69,02	7,49	-1,05	12%	-2%
Frozen chicken portions	10kg	314,61	327,56	330,44	2,88	15,83	1%	5%
Curry powder	200g	30,25	29,84	31,18	1,33	0,92	4%	3%
Stock cubes	24 cubes x2	37,87	38,83	38,62	-0,21	0,75	-1%	2%
Soup	400g x2	37,47	38,25	40,03	1,77	2,55	5%	7%
Tea	250g	23,12	22,89	21,90	-0,99	-1,23	-4%	-5%
White bread	25 loaves	321,69	333,59	331,75	-1,84	10,06	-1%	3%
Brown	bread	294,52	303,94	303,16	-0,78	8,64	0%	3%
Total household food basket		2 065,71	2 174,53	2 227,18	52,65	161,47	2,4%	7,8%

Source: Foundation for Human Rights

5.1 Household Annual expenditure

According to Institute for Employment Studies, most people saw a decline in their household incomes since the start of the pandemic, either due to being furloughed, seeing a reduction in their working hours or losing their job. Despite these changes in circumstances, many were able to continue to meet their basic living costs. While several spoke of having higher food bills as they/their family were at home more, these individuals had taken steps to manage their spending in this area such as stricter budgeting and shopping for reduced priced items.

It is conspicuous that many high and middle income category (R2.4 million to R72 thousand) households regressed to lower income categories since the pandemic. The largest increases where witnessed in the R30 thousand to R42 thousand category where the number of households increased from 221 thousand in 2019 to 229 thousand in 2020. The R18 thousand to R30 thousand category increased from 213 thousand households in 2019 to 221 thousand in 2020. While the R12 thousand to R18 thousand category increased from 64 thousand households in 2019 to 71 thousand households in 2020.

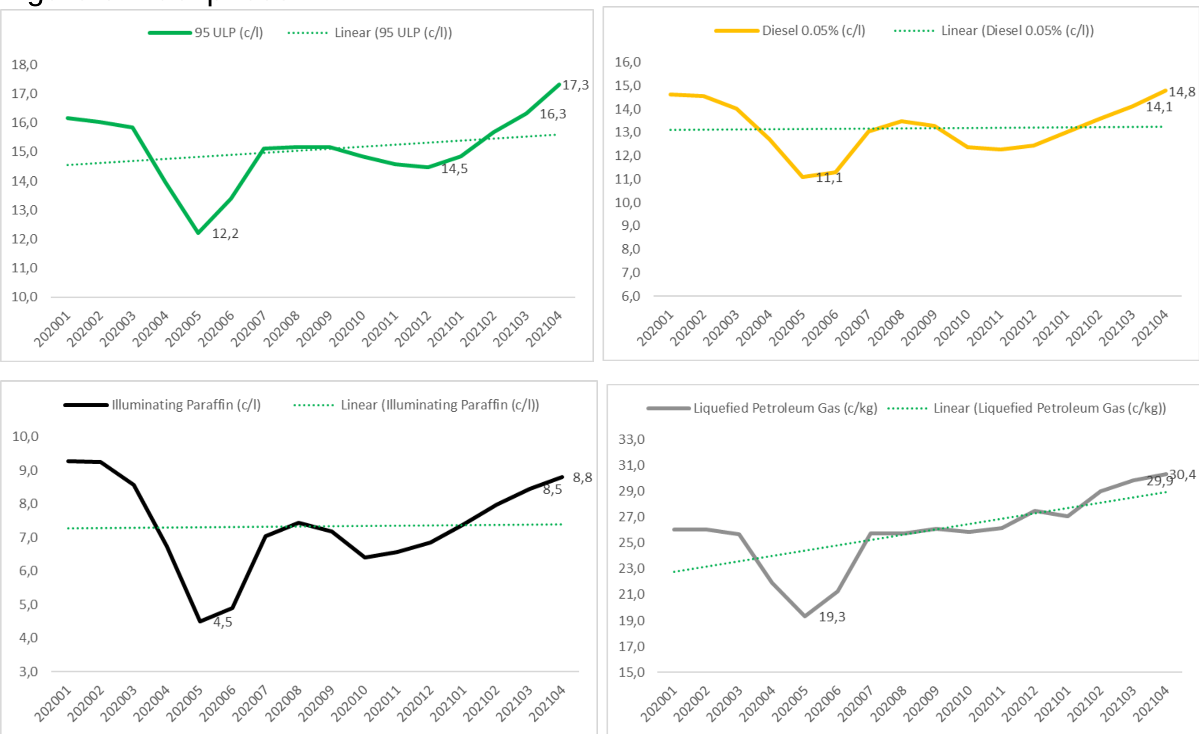
Figure 7: Household Annual expenditure by household

Source: IHS Regional Explorer 2021

5.2 South African fuel prices

Among other factors that jeopardises the cost of living for many South Africans is the cost of fuel. Owners of automobiles and passengers in public transport, like taxis, are similarly affected and thereby reducing their potential disposable income. In the first few months of 2021 the Rand appreciated against the Dollar, protecting the consumers from even higher fuel prices. When crude oil prices plummeted in 2020 May, 95 ULP was R12.2, Diesel R11.1 Illuminating paraffin R4.5, and Liquefied petroleum gas R19.3. However, as some countries in Asia, America and Europe started opening up, it led to an increase in demand for crude oil and subsequently raised the prices of fuel to R17.3, R14.8, R8.8, and R20.4 respectively in 2021 April. The risks emanating from political uncertainty and weak economic performance may depreciate the rand and possibly raise the price of all types of fuel, which ultimately will affect the poor citizens of the country.

Figure 8: Fuel prices



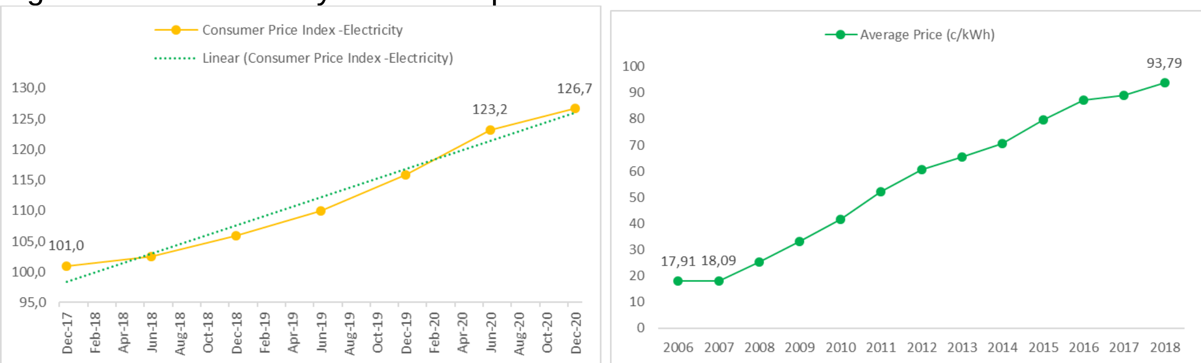
Source: SAPIA - South African Petroleum Industry Association

5.3 Electricity prices

Electricity is foundational to society’s ability to function well and without it essential services such as lighting, cooking and virtually anything electronic, will be negatively affected. Thus, any threat to service delivery on the side of the utility and affordability must be balanced with the goal of sustainable economic growth and development. Increases in electricity tariffs could potentially reduce the household disposable income and cause poor households to either increase their expenditure to maintain consumption; change their behaviour through energy savings; or compromise their health and safety by switching back to unsafe and inefficient fuels such as paraffin or wood

Electricity consumer price index was 101 index point in Dec 2017, and rose drastically to 123.2 index points in June 2020. With Eskom requesting increased tariffs, National Energy Regulator of South Africa (NERSA) conceded and eventually pushed the index to 126.7 in Dec 2020. This also was reflected in the average electricity price measure in C/KWH which rose from R18.09 in 2007 to R93.79 in 2018. In the process South Africa moved from being one of the countries in the world with the lowest electricity tariffs to one of the countries with the highest cost for electricity.

Figure 9: The electricity consumer price index



Source: National Energy Regulator of South Africa (NERSA)

6 Conclusion

The world economic recovery is highly unreliable, depending on human behaviour and government responses in terms of regulations and roll out of vaccination. It is further undeniable that Covid-19 has impacted countries differently, where the intensity has been more severe in developing economies and the poor households. World Economic recovery will be supported mainly by Emerging market and developing economies, while that of Sub Saharan Africa and South Africa's economy will be spurred by aggregate demand for commodities and other primary sector output by developed and emerging economies.

The pandemic has regressed the gains made by governments by restructuring economies, curbing unemployment and poverty. On average, living standards of the world population has regressed as many had to contend with reduced wages, furloughed, and totally losing their jobs. This happens at a time where economies have slowed so as general productivity. It might take at least five years and more before the GDP per capita in developing economies is restored to pre Covid-19 levels.

The most noticeable impact of Covid-19 was also felt by households who experienced an average decline in household income. This implied high cost of living for many who have lost jobs or reduced income. The situation was aggravated by increase in fuels and energy prices which contributes a significant portion of the low income household expenditure.

7 Recommendations

It is evident that world economic recovery will not be spurred by a singular country. Therefore, world supply chains ought to be restored and economic cooperation that includes financial facilities need to be made available especial to developing economies to resuscitate economies to pre- Covid-19 levels.

Countries need to reform their traditional economies and diversify in response to the new challenges and opportunities resented by Covid-19. This means that countries need to invest in Research and Development (R&D) in exploration of new ways of doing things thereby improving productivity of all economic sectors.

Governments need to ensure that public entities and municipalities, that provide essential and basic services (energy, bulk services etc.), are run efficiently to minimise operational costs, thereby minimising the unit cost of public services to make them affordable to the general public.